DOD EXCESS PROPERTY
Control Breakdowns Present Significant Security Risk and Continuing Waste and Inefficiency

Statement of Gregory D. Kutz, Managing Director Forensic Audits and Special Investigations

John P. Ryan, Assistant Director Forensic Audits and Special Investigations
What GAO Found

GAO investigators posing as private citizens purchased several sensitive military equipment items from DOD's liquidation sales contractor, indicating that DOD has not enforced security controls for preventing sensitive excess military equipment from release to the public. GAO investigators at liquidation sales purchased ceramic body armor inserts currently used by deployed troops, a cesium technology timing unit with global positioning capabilities, a universal frequency counter, two guided missile radar test sets, 12 digital microcircuits used in F-14 fighter aircraft, and numerous other items. GAO was able to purchase these items because controls broke down at virtually every step in the excess property turn-in and disposal process. GAO determined that thousands of military items that should have been demilitarized (destroyed) were sold to the public. Further, in June 2006, GAO undercover investigators posing as DOD contractor employees entered two excess property warehouses and obtained about $1.1 million in sensitive military equipment items, including two launcher mounts for shoulder-fired guided missiles, several types of body armor, a digital signal converter used in naval surveillance, an all-band antenna used to track aircraft, and six circuit cards used in computerized Navy systems. At no point during GAO's warehouse security penetration were its investigators challenged on their identity and authority to obtain DOD military property.

The table below shows examples of sensitive military equipment obtained during GAO's undercover operations.

Sensitive Military Equipment Obtained during GAO’s Undercover Tests

<table>
<thead>
<tr>
<th>Frag jacket</th>
<th>Radar test sets</th>
<th>Ceramic body armor plates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antenna</td>
<td>Guided missile mount</td>
<td>Time selector unit</td>
</tr>
</tbody>
</table>

Source: GAO. Moog Corporation for antenna.

GAO investigators posing as private citizens also bought several new, unused items currently being purchased or in demand by the military services from DOD's excess property liquidation sales contractor. Although military units paid full price for these items when they ordered them from supply inventory, GAO paid a fraction of this cost to purchase the same items, demonstrating continuing waste and inefficiency.
Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss our recent investigation of Department of Defense (DOD) excess property controls. This testimony is the fourth in a series of testimonies and reports to this Subcommittee, detailing serious breakdowns in management processes, systems, and controls that have resulted in lost and missing property and substantial waste and inefficiency in DOD’s excess property reutilization program. Our June 2002 testimony and our November 2003 report documented instances where DOD sold to the public items such as Joint Service Lightweight Integrated Suit Technology (JSLIST) and other chemical and biological protective suits and related gear that should have been restricted to DOD-use only. Our November 2003 report also identified several examples to show that at the same time DOD excessed biological equipment items in good or excellent condition and sold many of them to the public for pennies on the dollar, it was purchasing the same or similar items. Our May 2005 report stated that DOD reported $466 million in lost, damaged, and missing excess property from fiscal years 2002 through 2004, including property with demilitarization restrictions, such as chemical and biological protective suits, body armor, and guided missile warheads. Some of the missing restricted items had been improperly sold to the public. Further, our May 2005 report noted that during fiscal years 2002 and 2003, the military services needlessly spent at least $400 million to purchase new items instead of reusing identical excess items in new and unused condition (A-condition). As a result, the new, unused excess items were sold for pennies on the dollar while the military services paid

---


2 JSLIST is a universal, lightweight, two-piece garment (coat and trousers) that when combined with footwear, gloves, and a protective mask and breathing device, forms the warfighter’s protective ensemble. The ensemble is to provide maximum protection to the warfighter against chemical and biological contaminants without negatively affecting the ability to perform mission tasks. JSLIST is the current model protective suit used by the military services.

3 DOD-4160.21-M-1, Defense Demilitarization Manual (1995), contains DOD policy related to controls over items with significant military technology application.
the full acquisition price to order these items from Defense Logistics Agency (DLA) supply depots.

Our recent investigative tests of controls over sensitive excess military equipment and technology items that require demilitarization focused on determining whether (1) DOD was improperly selling these items to the public\(^4\) and (2) excess property warehouse facilities had adequate security to prevent unauthorized parties from obtaining excess military items with demilitarization restrictions. Our investigative tests of controls for preventing liquidation sales of new, unused excess items that DOD is continuing to buy or that are in demand by the military services focused on whether these items were continuing to be sold to the public. We used publicly available information to develop undercover identities and techniques used in our investigations. We conducted our investigations from November 2005 through June 2006 in accordance with quality standards for investigators as set forth by the President’s Council on Integrity and Efficiency.

Today, we will summarize the results of our recent work with respect to whether (1) unauthorized parties could obtain sensitive excess military equipment that requires demilitarization when no longer needed by DOD and (2) systems and process improvements are adequate to prevent liquidation sales of A-condition items that DOD is continuing to buy or that are in demand by the military services. In addition, we will highlight the status of DOD corrective actions on the recommendations in our May 2005 report. The details of our work are included in our investigative report, which the Subcommittee is releasing today.\(^5\)

### Summary

Posing as private citizens to disguise our identity, our investigators identified and purchased numerous sensitive excess DOD military technology items that should have been demilitarized instead of being sold to the public. Sensitive excess military equipment we purchased at DOD excess property liquidation sales auctions included ceramic body armor

---


inserts currently used by deployed troops, a time selector unit used to ensure the accuracy of computer-based equipment, such as global positioning systems and system-level clocks, a universal frequency counter used to ensure that the frequency of communication gear is running at the expected rate, two guided missile radar test sets, at least 12 digital microcircuits used in F-14 Tomcat fighter aircraft, and numerous other sensitive electronic parts. We were able to purchase these items because controls broke down at virtually every step in the excess property turn-in and disposal process. Also, in instances where DOD required an End-Use Certificate (EUC) as a condition of sale, our undercover investigator was able to successfully defeat the screening process by submitting bogus documentation and providing plausible explanations for discrepancies in his documentation.

In addition, posing as DOD contractor employees our undercover investigators were able to easily penetrate security at two separate locations in June 2006 and obtain at no cost directly from excess inventory warehouses, numerous sensitive military equipment items valued at about $1.1 million that should not have been released outside of DOD. The items we obtained included two launcher mounts for shoulder-fired guided missiles, several types of body armor, a digital signal converter used in naval electronic surveillance, an all-band antenna used to track aircraft, six circuit cards used in computerized Navy systems, and several other items in use by the military services. The body armor could be used in terrorist or other criminal activity. Many of the other military items have weapons applications that also would be useful to terrorists. Our undercover investigators were able to obtain these items because Defense Reutilization and Marketing Office (DRMO) personnel did not confirm their identity and authorization to requisition excess DOD property items. The DRMO personnel even helped our undercover investigators load the items into our van.

---

6 An EUC is a form used by DOD to document the intended destination and disposition of sensitive, controlled items released from the department.

7 Under DOD’s excess property reutilization program, DOD contractors are treated the same as DOD units and are not charged for excess property items they requisition for reuse.

8 DRMOs are excess property warehouses operated by the Defense Reutilization and Marketing Service (DRMS), which is the agency within DLA charged with managing DOD’s excess property disposal system.
We also made several undercover purchases of new, unused A-condition excess DOD items, including wet-weather parkas, cold-weather desert camouflage parkas, a portable field x-ray processing enclosure, high-security locks used to secure the back bay of logistics trucks, a gasoline engine, and a refrigerant recovery system used for servicing automotive vehicles. The items we purchased at DOD liquidation sales were being ordered from supply inventory by military units at or near the time of our purchases and for one supply depot stocked item—the portable x-ray enclosure—no items were in stock when we made our purchase. At the time of our purchase, DOD’s liquidation contractor sold 40 of these x-ray enclosures with a total reported acquisition cost of $289,400 for a liquidation sales price of $2,914—about a penny on the dollar. In another example, we purchased a gasoline engine in March 2006 for $355. The Marine Corps ordered 4 of these gas engines from DLA supply inventory in June 2006 and paid $3,119 each for them. At the time of our undercover purchase, 20 identical gasoline engines with a reported acquisition cost of $62,380 were sold to the public for a total liquidation sales price of $6,221. Our investigation demonstrated that the problems we reported on in May 2005 have not been fully resolved and there is continuing waste and inefficiency in DOD’s excess property reutilization program.

We provided a detailed corrective action briefing to DOD on June 28, 2006. DOD managers told us they shared our concern about the breakdowns in security controls that allowed sensitive military items requiring demilitarization to be sold to the public. They asked us for pertinent documentation obtained during our investigations to support their follow-up inquiries and corrective action plans. We provided this information on June 30, 2006, along with documentation to show that the military services were still ordering and using the excess A-condition items that we purchased. In addition, we provided a draft of our investigative report to DOD for comment on July 10, 2006. In commenting on our draft report, DOD stated that given the time allotted to comment, the department was not able to perform a detailed review and has no comments at this time. DOD also stated that it continues to implement changes to procedures based on our May 2005 report.9

9 GAO-05-277.
Undercover Acquisitions of Sensitive Excess Military Items Identifies National Security Risk

Posing as private citizens, our undercover investigators purchased several sensitive excess military equipment items that were improperly sold to the public at DOD liquidation sales. These items included three ceramic body armor inserts identified as small arms protective inserts (SAPI), which are the ceramic inserts currently in demand by soldiers in Iraq and Afghanistan; a time selector unit used to ensure the accuracy of computer-based equipment, such as global positioning systems and system-level clocks; 12 digital microcircuits used in F-14 Tomcat fighter aircraft; guided missile radar test sets used to check the operation of the data link antenna on the Navy’s Walleye (AGM-62) air-to-ground guided missile; and numerous other electronic items. In instances where DOD required an EUC as a condition of sale, our undercover investigator was able to successfully defeat the screening process by submitting bogus documentation and providing plausible explanations for discrepancies in his documentation. In addition, we identified at least 79 buyers for 216 sales transactions involving 2,669 sensitive military items that DOD’s liquidation contractor sold to the public between November 2005 and June 2006. We are referring information on these sales to the appropriate federal law enforcement agencies for further investigation.

Our investigators also posed as DOD contractor employees, entered DRMOs in two east coast states, and obtained several other items that are currently in use by the military services. DRMO personnel even helped us load the items into our van. These items included two launcher mounts for shoulder-fired guided missiles, an all-band antenna used to track aircraft, 16 body armor vests, body armor throat and groin protectors, six circuit card assemblies used in computerized Navy systems, and two Palm V personal data assistant (PDA) organizers.

Sensitive Excess Military Items Purchased at DOD Excess Property Liquidation Sales

Using a fictitious identity as a private citizen, our undercover investigator applied for and received an account with DOD’s liquidation sales contractor. Our investigator was then able to purchase several sensitive excess military items noted above that were being improperly sold to the public. During our undercover purchases, our investigator engaged in numerous conversations with liquidation sales contractor staff during warehouse inspections of items advertised for sale and with DRMS and DLA’s Criminal Investigative Activity (DCIA) staff during the processing of our EUCs. On one occasion our undercover investigator was told by a DCIA official that information provided on his EUC application had no match to official data and that he had no credit history. Our investigator responded with a plausible story and submitted a bogus utility bill to confirm his mailing address. Following these screening procedures, the
EUC was approved by DCIA and our undercover investigator was able to purchase our targeted excess military items. Once our initial EUC was approved, our subsequent EUC applications were approved based on the information on file. Although the sensitive military items that we purchased had a reported acquisition cost of $461,427, we paid a liquidation sales price of $914 for them—less than a penny on the dollar.

We observed numerous sales of additional excess sensitive military items that were improperly advertised for sale or sold to the public, including fire control components for weapon systems, body armor, and weapon system components. The demilitarization codes for these items required either key point or total destruction rather than disposal through public sale. Although we placed bids to purchase some of these items, we lost to higher bidders. We identified at least 79 buyers for 216 public liquidation sales transactions involving 2,669 sensitive military items. On July 13, 2006, we briefed federal law enforcement and intelligence officials on the details of our investigation. We are referring public sales of sensitive military equipment items to the federal law enforcement agencies for further investigation and recovery of the sensitive military equipment.

During our undercover operations, we also noted 13 advertised sales events, including 179 items that were subject to demilitarization controls, where the items were not sold. In 5 of these sales involving 113 sensitive military parts, it appears that DOD or its liquidation sales contractor caught the error in demilitarization codes and pulled the items from sale. One of these instances involved an F-14 fin panel assembly that we had targeted for an undercover purchase. During our undercover inspection of this item prior to sale, a contractor official told our investigator that the government was in the process of changing demilitarization codes on all F-14 parts and it was likely that the fin panel assembly would be removed from sale. Of the remaining 8 sales lots containing 66 sensitive military parts, we could not determine whether the items were not sold because DOD or its contractor caught the demilitarization coding errors or because minimum bids were not received during the respective sales events.

Our investigators used publicly available information to develop fictitious identities as DOD contractor personnel and enter DRMO warehouses (referred to as DRMO A and DRMO B) in two east coast states on separate occasions in June 2006, to requisition excess sensitive military parts and equipment valued at about $1.1 million. Our investigators were able to search for and identify excess items without supervision. In addition, DRMO personnel assisted our investigators in locating other targeted items in the warehouse and loading these items into our van. At no point
during either visit, did DRMO personnel attempt to verify with the actual contractor that our investigators were, in fact, contractor employees.

During the undercover penetration at DRMO A, our investigators obtained numerous sensitive military items that were required to be destroyed when no longer needed by DOD to prevent them from falling into the wrong hands. These items included two guided missile launcher mounts for shoulder-fired missiles, six Kevlar body armor fragmentation vests, a digital signal converter used in naval electronic surveillance, and an all-band antenna used to track aircraft.

Posing as employees for the same DOD contractor identity used during our June 2006 penetration at DRMO A, our investigators entered DRMO B a day later for the purpose of testing security controls at that location. DRMO officials appeared to be unaware of our security penetration at DRMO A the previous day. During the DRMO B undercover penetration, our investigators obtained 10 older technology body armor fragmentation vests, throat and groin protection armor, six circuit card assemblies used in Navy computerized systems, and two Palm V personal digital assistants (PDA) that were certified as having their hard drives removed. Because PDAs do not have hard drives, after successfully requisitioning them, we asked our Information Technology (IT) security expert to test them and our expert confirmed that all sensitive information had been properly removed.

Shortly after leaving the second DRMO, our investigators received a call from a contractor official whose employees they had impersonated. The official had been monitoring his company’s requisitions of excess DOD property and noticed transactions that did not appear to represent activity by his company. He contacted personnel at DRMO A, obtained the phone number on our bogus excess property screening letter, and called us. Upon receiving the call from the contractor official, our lead investigative agent explained that he was with GAO, and we had performed a government test.

---

10 Our IT expert used National Institute of Standards and Technology (NIST) utilities recommended for forensic analysis to run the tests. See NIST Pub. 800-72, Guidelines on PDA Forensics (November 2004).
Waste Associated with Sales of A-Condition Excess Items that Military Services Are Continuing to Use in Operations

Because significant numbers of new, unused A-condition excess items still being purchased or in use by the military services are being disposed of through liquidation sales, it was easy for our undercover investigator to pose as a liquidation sales customer and purchase several of these items for a fraction of what the military services are paying to obtain these same items from DLA supply depots. For example, we paid $1,146 for several wet-weather and cold-weather parkas, a portable field x-ray enclosure, high-security locks, a gasoline engine that can be used as part of a generator system or as a compressor, and a refrigerant recovery system used to service air conditioning systems on automobiles. The military services would have paid a total acquisition cost of $16,300 for these items if ordered from supply inventory, plus a charge for processing their order.\(^{11}\)

Several of the items we purchased at liquidation sales events were being ordered from supply inventory by military units at or near the time of our purchase, and for one supply depot stocked item—the portable field x-ray enclosure—no items were in stock at the time we made our undercover purchase. At the time of our purchase, DOD’s liquidation contractor sold 40 of these x-ray enclosures with a total reported acquisition cost of $289,400 for a liquidation sales price of $2,914—about a penny on the dollar. We paid a liquidation sales price of $87 for the x-ray enclosure which had a reported acquisition cost of $7,235. In another example, we purchased a gasoline engine in March 2006 for $355. The Marine Corps ordered 4 of these gas engines from DLA supply inventory in June 2006 and paid $3,119 each for them. At the time of our undercover purchase, 20 identical gasoline engines with a reported acquisition cost of $62,380 were sold to the public for a total liquidation sales price of $6,221, also about a penny on the dollar.

Status of DOD Corrective Actions

In response to recommendations in our May 2005 report,\(^ {12}\) DOD has taken a number of actions to improve systems, processes, and controls over excess property. Most of these efforts have focused on improving the economy and efficiency of DOD’s excess property reutilization program. However, as demonstrated by our tests of security controls over sensitive excess military equipment, DOD does not yet have effective controls in place to prevent unauthorized parties from obtaining these items. For

---

\(^{11}\) As noted in our May 2005 report, the weighted average cost for warehousing and shipping all supply items was 20.7 percent in fiscal year 2003.

\(^{12}\) GAO-05-277.
example, although DLA and DRMS have emphasized policies that prohibit batch lotting\textsuperscript{13} of sensitive military equipment items, we observed many of these items being sold in batch lots during our investigation and we were able to purchase several of them. In addition, DLA and DRMS have not ensured that DRMO personnel and DOD’s liquidation sales contractor are verifying demilitarization codes on excess property turn-in documentation to assure appropriate disposal actions for items requiring demilitarization.

Further, although DLA and DRMS implemented several initiatives to improve the overall reutilization rate for excess A-condition items, our analysis of DRMS data found that the reported reutilization rate as of June 30, 2006, remained the same as we had previously reported—about 12 percent.\textsuperscript{14} This is primarily because DLA reutilization initiatives are limited to using available excess A-condition items to fill customer orders and to maintain established supply inventory retention levels. As a result, excess A-condition items that are not needed to fill existing orders or replenish supply inventory are disposed of outside of DOD through transfers, donations, and public sales, which made it easy for us to purchase excess new, unused DOD items.

Despite the limited reutilization supply systems approach for reutilization of A-condition excess items, DLA and DRMS data show that overall system and process improvements since the Subcommittee’s June 2005 hearing have saved $38.1 million through June 2006. According to DLA data, interim supply system initiatives using the Automated Asset Recoupment Program, which is part of an old DOD legacy system, achieved reutilization savings of nearly $2.3 million since July 2005 and Business System Modernization supply system initiatives implemented in January 2006 as promised at the Subcommittee’s June 2005 hearing, have resulted in reutilization savings of nearly $1.1 million. In addition, DRMS reported that excess property marketing initiatives implemented in late March 2006 have resulted in reutilization savings of a little over $34.8 million through June 2006. These initiatives include marketing techniques using Web photographs of high-dollar items and e-mail notices to repeat customers about the availability of A-condition items that they had previously selected for reutilization.

\textsuperscript{13} Batch lotting refers to combining one or more items, or a mixed group of items, on the same turn-in document or sales lot.

\textsuperscript{14} GAO-05-277 and GAO-05-729T.
Concluding Remarks

Our most recent work shows that sensitive military equipment items are still being improperly released by DOD and sold to the public, posing a significant national security risk. The sensitive nature of these items requires particularly stringent internal security controls. Our tests, which were performed over a short duration, were limited to our observations, meaning that the problem may likely be more significant than what we identified. Although we have referred the sales of items identified during our investigation to federal law enforcement agencies for follow-up, the solution to this problem is to enforce controls for preventing improper release of these items outside DOD. Further, liquidation sales of items that military units are continuing to purchase at full cost from supply inventory demonstrates continuing waste to the taxpayer and inefficiency in DOD’s excess property reutilization program.

Mr. Chairman and Members of the Committee, this concludes my statement. I would be pleased to answer any questions that you or other members of the committee may have at this time.

Contacts and Staff

For further information about this testimony, please contact Gregory D. Kutz at (202) 512-7455 or kutzg@gao.gov. Major contributors to this testimony include Mario L. Artesiano, Donald L. Bumgardner, Matthew S. Brown, Paul R. Desaulniers, Stephen P. Donahue, Lauren S. Fassler, Gayle L. Fischer, Cinnimon Glozer, Jason Kelly, John Ledford, Barbara C. Lewis, Richard C. Newbold, John P. Ryan, Lori B. Ryza, Lisa M. Warde, and Emily C. Wold.

Technical expertise was provided by Keith A. Rhodes, Chief Technologist, and Harold Lewis, Assistant Director, Information Technology Security, Applied Research and Methods.
**GAO’s Mission**

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO’s commitment to good government is reflected in its core values of accountability, integrity, and reliability.

**Obtaining Copies of GAO Reports and Testimony**

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO’s Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select “Subscribe to Updates.”

**Order by Mail or Phone**

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office  
441 G Street NW, Room LM  
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000  
TDD: (202) 512-2537  
Fax: (202) 512-6061

**To Report Fraud, Waste, and Abuse in Federal Programs**

Contact:

E-mail: fraudnet@gao.gov  
Automated answering system: (800) 424-5454 or (202) 512-7470

**Congressional Relations**

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400  
U.S. Government Accountability Office, 441 G Street NW, Room 7125  
Washington, D.C. 20548

**Public Affairs**

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548